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C O N F I D E N T I A L SECTION 01 OF 02 LAGOS 000704

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SUBJECT: NIGERIA - SAO TOME JDZ: EXXONMOBIL BIDS BLOCK 1

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Classified By: J. GREGOIRE FOR REASONS 1.5 (B) (D) AND (E)

¶1. (C) SUMMARY: ExxonMobil has exercised only one of its preferential bids for crude oil exploration and development in the Nigeria - Sao Tome and Principe Joint Development Zone (JDZ). ExxonMobil matched ChevronTexaco's bid on Block 1, leaving the Joint Development Authority to determine the final number of stakeholders for what is considered the JDZ's most valuable block and which company will become the operator. Chrome Energy is in the process of exercising its preferential bids. Meanwhile, an ExxonMobil official cautioned that the Government of Sao Tome may not be prepared to deal with the complexities of modern oil development. END SUMMARY.

EXXONMOBIL'S PREFERENTIAL BID FOR BLOCK 1

¶2. (U) On or about February 20, 2004, ExxonMobil exercised its preferential bid for crude oil exploration and development rights in the Nigeria - Sao Tome and Principe Joint Development Zone (reftel). ExxonMobil and Chrome Energy were allowed preferential bids based on exploration work the companies had done under separate agreements with the Democratic Republic of Sao Tome and Principe (DRSTP) before it entered into a joint development treaty with Nigeria in 2001. The Joint Development Authority (JDA) administering and regulating the zone ended a licensing round in October 2003 for nine blocks within the JDZ, by which time 20 companies had submitted bids for eight of the blocks. The bids included signature bonuses due when awards are announced. ExxonMobil was then allowed to exercise its preferential right, and Chrome will follow suit. ExxonMobil was given a preferential right to shares in any three blocks within the JDZ equaling no more than 40 percent, 25 percent, and 25 percent of the equity, respectively. The company had to match the highest bonus offered in the licensing round for the blocks it sought, but the percentage it will pay of the associated bonus will equal its share of a block.

¶3. (C) Mary Feeley, ExxonMobil's General Manager for Exploration, confirmed to ECONOFF on March 11 that the company had matched ChevronTexaco's signature bonus of $123 million for Block 1. Feeley also said that ExxonMobil did not exercise its right to bid on two additional blocks. She suggested that ExxonMobil chose to focus its resources and efforts on Block 1, considered the most valuable of this licensing round, because of the number of surprisingly high bids submitted and the relative uncertainty regarding actual deposits and potential development and production costs in the JDZ.

WHO WILL JOIN IT?

¶4. (C) Feeley said the JDA will soon consider the other bids for Block 1. ChevronTexaco's $123 million bid should have placed it in a position to take a majority share in the block and thus become operator. But a surprisingly high bid of over $100 million by Nigeria's Consolidated Oil (Conoil) may cause the JDA to divide the remaining stake in Block 1 between the two companies, in effect making ExxonMobil the majority stakeholder and operator if it is granted 40 percent equity. Conoil's financial capability is suspect, according to Feeley; she had heard, however, that Conoil has partnered with Norway's Statoil on the bid, which may ease JDA fears of Conoil's ability to participate effectively in development of the block. Feeley said ExxonMobil is not concerned about it or Chevron acting as operator. She said either company will lead the project effectively and the two companies will work well together via operating and technical committees formed to administer joint projects.

AMATEURS IN SAO TOME

¶5. (C) When asked how well the Government of Sao Tome and Principe is handling its entry into the world of oil producing states, Feeley cautiously opined that many people in the DRSTP involved in the JDZ and domestic oil sector are amateurish in their approach and expectations. For example,

some government officials still cling to expectations of rapid wealth accumulation by the DRSTP once the JDZ bids are finalized. She said this expectation persists regardless of how often and carefully she and other corporate representatives explain that, under the production sharing contracts (PSC) that will govern the licenses, the Governments of Nigeria and the DRSTP will not receive revenue from oil production until five to ten years after first-oil.

¶6. (U) Under a PSC, a private oil company bears the total cost of developing a project, such as drilling wells, installing well heads, building piping and platforms, and in the case of deep offshore projects, bringing in floating production, storage and offloading vessels (FPSO). Once production begins and oil is pumped and sold, the company shares revenue from crude production with a government entity only after the company has recouped its development costs. After the initial period of producing "cost oil" from which the company keeps all revenue (but on which it pays taxes), the company and the government split the revenue from the production of "profit oil." Usually the profit oil ratio is very favorable to the company in the early stages of production, but the ratio inverts steeply over time as production markers are reached.

¶7. (C) For example, Feeley disclosed that ExxonMobil negotiated an initial 80/20 split of profit oil with the Nigerian National Petroleum Corporation (NNPC) in 1993 for the Erha offshore project in Block 209, with ExxonMobil receiving 80 percent. That ratio will shift to 70/30 after production reaches 350 million barrels. As production increases, the ratio will shift further to the advantage of NNPC increasingly fast.

¶8. (C) Feeley said the typical cost of developing a deepwater project at 2,000 to 3,000 meters, the water depth of portions of the JDZ (the water depth of Block 1 is approximately 1500 meters), is two to three billion dollars. She estimated that the JDA and the two constituent countries will not see revenue from the JDZ, other than the initial bonus payment and ongoing taxes, for a period of five to ten years after first-oil is marketed.

JUST WHO ARE THE OTHER PLAYERS?

¶9. (C) Feeley also reiterated a concern voiced by other companies involved in the JDZ licensing round, including the JDA (reftel), that the qualifications and credibility of the bidders other than the international oil companies (IOC) are questionable, and their intent to develop the blocs as soon as possible is suspect. Following ExxonMobil's preferential bid, the JDA will give Chrome Energy its opportunity to exercise preferential bids on six blocs, for shares of 15 to 30 percent. After Chrome's bids are submitted, the JDA will assess all bids in this round and award contracts in all blocks.

HINSON-JONES